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U.S. Foreign Economic Policy and the Significance of the National Economic Council

Chris J. Dolan
University of Central Florida

Jerel A. Rosati
University of South Carolina

Research demonstrates that the National Economic Council (NEC) and the decision-making process through which economic issues must pass are essential components in the evolution of American foreign economic policy. This article will examine the functions and responsibilities of the NEC in the making of U.S. foreign economic policy under Presidents Bill Clinton and George W. Bush. It selects key policies, namely international monetary policy, fiscal policy, and trade liberalization, and examines key issues within each in order to provide tentative answers to questions regarding foreign economic policy and the emergence and development of the NEC. Also, this article supplies an overview of the large body of research on international economics and foreign economic policy. Furthermore, it identifies key U.S. foreign economic policy issues developed and coordinated by the NEC. The article concludes with a discussion of to what extent the NEC is a significant development in U.S. foreign economic policy and in the making of foreign policy.

Keywords: national economic council, national economic adviser, U.S. foreign economic policy, intermestic issues

Under the Bretton Woods regime of monetary exchanges fixed on the U.S. dollar, the U.S. was able to dominate the global economy for over two decades. Foreign economic policy receded to a ''low policy'' concern, requiring little attention by most policy makers involved in the ''high'' policy of national security affairs (Bailey 1980; LaFeber 1989; Eckes 1995). Following the collapse of Bretton Woods, the spread of technology and global interdependence has led to the merging of economic issues in foreign and domestic policy (Morse 1970; Destler 1994, 1995; Keohane and Nye 2001). Bayless Manning (1977) and Raymond Hopkins (1978) even suggest that these developments have contributed to the expansion of so-called intermestic issues. This article contends that U.S. foreign economic policy and the rise of the National Economic Council (NEC) demand further examination by international relations scholars and political scientists.

In response to the growing influence of international economic issues on the U.S. economy, the NEC was created by President Bill Clinton in 1993 in order ''to coordinate the economic policy-making process with respect to domestic and international economic issues; to provide economic policy advice to the President; to ensure that economic policy decisions and programs are consistent with the

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President's stated goals and to ensure that those goals are being effectively pursued; and to monitor implementation of the President's economic policy agenda" (Clinton 1993). Similar to the National Security Council (NSC), membership on the NEC includes: the president and vice-president, national economic adviser, national security adviser, domestic policy adviser, science and technology adviser, U.S. Trade Representative (USTR); Office of Management and Budget Director, Chair of the Council of Economic Advisers, Environmental Protection Agency Administrator, and the secretaries of state, treasury, commerce, labor, transportation, agriculture, energy, and housing and urban development. On the whole, the NECs intended function was to serve as an "honest broker" of the economic policy making process (Destler 1996; Juster and Lazarus 1996; Wildavsky 1996). The national economic adviser would serve as the top White House official on economic issues and direct the NEC, a Principals Committee would coordinate economic policy formulation, and a Deputies Committee and support staffs were entrusted with overseeing interagency work. To foster cooperation, Clinton added the national economic adviser and the treasury secretary to the NSC and merged the NSC and NEC staffs into a joint Office of Trade and International Economic Policy.

Under President George W. Bush, both the national economic adviser and national security adviser would "share a foreign policy desk" in order "to make sure the economic people don't run off with foreign policy and vice versa" (see Sanger 2001:A10). In addition, Bush enlarged the joint NSC/NEC global economics staff and added the newly created position deputy assistant international economic policy adviser to direct it. He emphasized, "Globalization has altered the dynamics in the White House, as well as between the White House and the Treasury. We have to respond to that" (see Sanger 2001:A10).

The article is organized into three sections. The first provides an overview of the body of research on international economics and foreign economic policy and policy making. The second identifies key U.S. foreign economic policy issues that the NEC developed and coordinated. Third, the article ends with a discussion of to what extent the NEC is a significant development in U.S. foreign economic policy and in the making of foreign policy.

Theory and Empirical Research

A sizable literature has developed to explain the dynamic contours of foreign economic policy. While debates have arisen within the neorealist and neoliberal schools of thought, other areas of research, namely on such issues as sanctions, foreign aid, and international finance and on foreign economic decision-making have sought to explain the significance of economic issues in U.S. foreign policy.

Economic Power

Neorealism has made significant contributions in discerning the importance of how states impact the international political economy. The primary concern involves how conflicts are settled, given the power interests of states (Waltz 1979). In this setting, states use economic relations and commercial transactions as political leverage for relative advantage and struggle to influence other states, international organizations, and institutions (Krasner 1991). Albert Hirschman (1945) claimed that states could either set policies that limit access to critical goods and services to weaken their competitors (e.g., with tariffs or import fees) or influence the foreign policy of another state by altering vital economic rules that govern international trade, such as by cutting off trade (Hirschman 1945). While Hirschman's analysis seems diminutive in this current era of free trade and economic openness, Krasner suggests that "the success of these efforts remains in doubt at least in part because

the relative opportunity costs of change are not highly asymmetrical" (Krasner 1999:190).

On the nexus between power and international economic organizations and institutions, several scholars advance a neorealist interpretation of hegemonic stability; that is, a stable global economic system is apparent when there is one state much larger and more powerful than the rest. Gilpen (1987) contends that only the most powerful and economically advanced states benefit from stable international regimes, given their vast economic resources and capital. Krasner (1999:190) moves beyond this interpretation by claiming "if there is a hegemonic distribution of power there is likely to be an open regime for trade." In other words, a hegemonic state will prefer open and fluid international organizations and institutions in order to maximize its economic power, such as the United States with the North American Free Trade Agreement (NAFTA) or the Free Trade Agreement of the Americas. However, in an international system characterized by a hegemonic distribution of power, openness is only promoted among allies in order to strengthen international or regional security arrangements (Gowa 1994).

Global economics became more prominent with the end of Bretton Woods. By the 1980s, scholars of international relations were beginning to take a closer and more focused look at U.S. foreign economic policy. This was especially the case among scholars of international political economy, especially those who might be identified as part of a neorealist approach. Ikenberry (1988) developed a common theoretical framework for explaining U.S. foreign economic policy based on the interplay of three explanatory approaches: (global) system-centered, society-centered, and state-centered explanations. He emphasized the need to go beyond more conventional system-centered explanations and look within the "black box" of the state and society, which has received considerable attention over the years.

Economic Interdependence

Neoliberals argue that the force driving the interaction between nations on both economic and security issues is global interdependence (Keohane and Nye 2001). They contend that economics and trade directly affect a state's ability to advance its security interests. Unlike neorealism, neoliberalism is less concerned with the relative position of states and nonstates to one another and more concerned with increasing their well-being (Matthew and Zacher 1995). Furthermore, neoliberals contend that despite the lack of a higher law and a universal moral code, from this constant state of anarchy will emerge a system of interdependence where nations will realize their common interests and morals and work together to preserve the international system (Hoffmann 1986; Slaughter 1995; Moravcsik 1997).

The proliferation of economic transactions with advances in transportation and communications technology has strengthened the legitimacy of the neoliberal perspective of international economic issues (Stein 1990; Achen 1995). With this in mind, neoliberalism has spawned three variants: mutual cooperation, functionalism, and trans-nationalism. Mutual cooperation sees the failure of national states to maximize their economic resources and financial capacities as the primary motivation to forge and develop international or regional institutions to facilitate information sharing and provide solutions to market-based problems (Keohane 1984; Stein 1990). Functionalism, which emerged first in the 1950s to help understand the European Economic Community, places more attention on the role of states using their power to construct and enhance international or regional integration with the goal of establishing mutually beneficial networks among nations (Burley and Mattli 1993). Nye and Keohane (1971:xii) led the way in developing trans-nationalism, suggesting that "the movement of tangible or intangible items across state boundaries when at least one actor is not an agent of a government or

an intergovernmental organization" will lead states to coordinate the flow of information and facilitate cooperation.

Although neorealism and neoliberalism emphasize the role of state-centered institutions in their explanations, much of this work remains at a general institutional level and rarely delves into the policy making process, the filter through which international and domestic forces must pass to impact policy. Our examination of the NEC and its roles in the foreign economic process will hopefully address this shortcoming and complement both perspectives in discerning U.S. foreign economic policy making.

Sanctions, Foreign Aid, and International Finance

A significant amount of research has also been conducted on the use of sanctions and foreign aid as well as on international financial issues. Most studies of sanctions have examined the subject as a tool of U.S. trade policy (Baldwin 1985; Hufbauer, Schott, and Elliott 1985; Lindsay 1986). Similar to other types of measures, sanctions attract support or opposition based on the political interests of policy makers and interest groups (Kaempfer and Lowenberg 1993). Other studies assess the ability of sanctions to accomplish foreign economic policy goals (Martin 1992). One study suggests that sanctions are more likely to succeed when used by a large country against a much smaller one, the sanctioning state's objectives are modest, the sanctioning state and the target state are allies, and when the sanctioning is short-lived (Hufbauer, Schott, and Elliott 1985:79–92).

When policy makers threaten to use sanctions, it is largely believed that they are seeking to maximize some utility other than change in the target state's behavior. Lindsay (1986) has studied the utilization of sanctions as a way of subverting and deterring the actions of other states. When sanctions are used to enforce compliance with objectives, they rarely succeed but their symbolic goals may be important to both domestic and international constituencies (Milner 1997). Sanctions could also deter action, although it is problematic to assess whether or not which types of behavior have been deterred (Baldwin 1985; Hufbauer, Schott, and Elliott 1985).

Research has also sought to uncover the causes of foreign aid and establish the causal conditions that support foreign aid programs. The political economy viewpoint perceives foreign aid as a policy measure used by donor states to further political and economic interests. Moreover, interests are seen as reflections of national culture and political institutions, and as the dynamics and complexities of competitive subnational actors (Gilpin 1987; Nelson 1990). Furthermore, there are various traditions in political economy, ranging from determinism and rational choice to social constructivism (Staniland 1985; Mueller 1997; Bates 1998). Foreign aid can also be assessed in terms of maximizing benefits to donor states resulting from particular aid programs (Grant and Nijman 1998) with sub-national bureaucracies strategically advancing policy interests (Nelson and Eglinton 1993; van de Walle 1998). Third, the literature also emphasizes bargaining among economic bureaucracies within states and in relation to international organizations. Political actors want something in return for the aid they provide and promote burden sharing and multilateral coordination for attaining them (Putnam 1988).

The prevailing research also focuses on financial crises. According to Haggard and Maxfield (1996), emergencies are the result of more liberal and open financial policies of developing nations. Radelet and Sachs (1998:37) claim that the International Monetary Fund (IMF) and World Bank "have arguably contributed to significant new moral hazards in international lending." As liquidity shocks are imperfectly correlated across regions, banks hold interregional claims on other banks to provide insurance against liquidity preference shocks (Allen and Gale 2000). Kaminsky and Reinhart (1999) contend that this system of

risk sharing and aggregate uncertainty is highly fragile and may result in financial contagions.

U.S. Foreign Economic Policy Making and the NEC

Several studies have focused on the NEC's impact on presidential power in foreign economic policy with scholars examining the managerial roles of the NEC. Destler (1996) assesses the effectiveness of the council in brokering competing actors in the policy making process, defining problems in a timely and productive manner, and in overseeing the economic bureaucracy. Other scholars tend to focus on the post–Cold War orientation of the NEC and bureaucratic resistance to organizational change (Ripley and Lindsey 1997; Scott 1997). Destler (1998:106) contends that while security has lost its automatic primacy in the post–Cold War era, economic policy making "has not won comparable primacy," which may contribute to an uncertain future for the NEC. Auger (1997:55–56) points to the placement of the national economic adviser on the NSC, the national security adviser on the NEC, and the merging of NEC and NSC staffs as evidence of how "two levels of interaction were built into the policy-making system." Juster and Lazarus (1996:21) add that the NEC should be reconfigured "to accommodate the substantive issues and decisions that a president and his administration face and the priorities that he chooses to pursue."

Others contend that by entrusting the NEC with foreign economic policy, the organization has been positioned in conflict with the NSC (Frendreis and Tatalovich 1994). On the domestic side, Warshaw (1997:197–203) claims that by taking the lead in developing the domestic economic stimulus package and the 5-year deficit reduction program, the NEC even eliminated the Domestic Policy Council from formulating the president's domestic agenda for 1993.

The Presidency and U.S. Foreign Economic Policy Making

While conventional studies have overwhelmingly stressed national security policy (Snyder, Bruck, and Sapin 1962; Rosenau 1966; Allison 1971), with the rise of economics to high policy status, more research is required on the coordination and management of issues at the nexus of foreign and domestic economics.

Policy Relevance

The end of the Cold War led to the emergence of a global economic realignment that limited America's ability to implement its strategy of becoming the unquestioned arbiter of the globalizing world economy. The goal has been to remain as the preeminent global military power reach without operating under the illusion that it can act alone in the economic sphere. However, the U.S. has benefited from the realignment of the global economic system. For example, the process of globalization has increased America's standard of living by roughly $1 trillion per year. According to Fred Bergsten (2004), since 1945, the average American household is about $9,000 per year richer and, since 1991 U.S. income has increased by a further $500 billion per year as a result of greater integration with the global economy.

The NEC must be seen as an organizational response to the emergence of the new world economic order and a reflection of the merging of international and domestic economic issues into an intermestic policy process within the context of globalization (Destler 1996; Juster and Lazarus 1996; Wildavsky 1996). Clinton described the NEC in the following light: "I think when the history of this administration is written, one of the most significant organizational changes we will have made, and one that I predict all future administrations will follow, is the creation of

the NEC and the development of a coordinated, disciplined national economic policy for global economy" (Clinton 1995). Given that every president has refashioned his own economic advisory system (Frendreis and Tatalovich 1994:65–72), the decision by President George W. Bush to continue and expand the NEC was a firm indication that this structural arrangement would serve as a mechanism to ensure that U.S. foreign economic policies are consistent with the rapidly changing international economy.

International Monetary Policy

With the collapse of the Bretton Woods system in 1971, exchange rates for most currencies were allowed to float, although central banks still intervened to prevent sharp changes. In response, governments with large trade surpluses began selling their currencies to prevent them from appreciating; by the same token, governments with large deficits started purchasing their own currencies in order to prevent depreciation. Since 1990, the United States has run persistent and sizable trade deficits, which has resulted in a net trade debt of 25% of Gross Domestic Product (GDP) in 2004 (U.S. Department of Commerce/Bureau of Economic Analysis 2004). The explosion of the trade deficit has been facilitated by a significant increase in capital account transactions, namely foreign investment in the U.S., securities purchases and sales, lending and deposit receipts, and transactions by both the U.S. government abroad and foreign central banks in the U.S. For example, U.S. corporate and individual investors purchased assets or made loans abroad totaling roughly $425 billion in 2004 compared with $283 billion in 2003. In 2003, private foreign investors purchased roughly $364.4 billion in U.S. government securities and foreign governments acquired $194.6 billion in government securities (U.S. Department of Commerce/Bureau of Economic Analysis 2004).

Although the trade deficit does have equilibrating tendencies, other forces tend to increase it (Hooper et al. 2000). The gap between exports and imports, which accounts for roughly 90% of the trade deficit, has been exacerbated by the rise in the value of the dollar that began in the early 1990s. As the dollar rose, U.S. demand for imports was spurred by falling import prices, while foreign demand for U.S. exports was dampened by rising export prices. By 2004, the merchandise trade deficit grew to 5.2% of GDP, an increase of 4% since the beginning of 1997. Between 1987 and 1997, the trade-weighted value of the dollar averaged 91 (with its value in 1973 = 100) and the total accumulated fiscal and trade deficits of the U.S. averaged 1.6% of GDP. However, between January 1997 and January 2002, the dollar index rose from 90.5 to 113 and total fiscal and trade deficits rose to 8.5% of GDP (U.S. Department of Commerce/Bureau of Economic Analysis 2004; U.S. Department of Commerce/International Trade Administration 2004).

Global financial interdependence has exacerbated America's vulnerability to fluctuations in international finance. The primary goal of the IMF has been to extend short-term credit to nations unable to meet their foreign debts by increasing exports, taking out long-term loans, or using currency reserves. While standard IMF policy requires tighter fiscal and monetary policies in exchange for short-term credits, in the mid-1990s, as international financial markets grew more robust and interconnected, some states ran into severe problems paying their foreign debts. This was because of abrupt changes in flows of private investment dollars and "structural" deficiencies in their economies. The most significant crises gripped Mexico in early 1995, Asia in 1997, and South America in 2001.

Mexican Peso Crisis

In late December 1994, President Clinton named Laura Tyson as national economic adviser to succeed Rubin who was named treasury secretary. At the same

time, Mexico's peso went into a free fall for 1 week, shedding roughly 40% of its value in U.S. dollars. The overall view was that if the U.S. did not address the peso crisis, the impact on the U.S. dollar abroad would be catastrophic (Lacayo 1995). Moreover, it was believed that U.S. exports to Latin America under NAFTA would be drastically impacted, which could explode America's overall trade debt. Although President Carlos Salinas had tied the peso's exchange rate to the U.S. dollar as part of a strategy to reduce inflation, the peso rose as Mexico's inflation rate was much higher than America's (Robberson 1995). In early January 1995, Mexican President Ernesto Zedillo responded with an emergency recovery program that instituted wage and price controls, spending cuts, and privatized state-owned industries in order to stabilize Mexican financial markets and restore investor confidence (Zimmerman and Conger 1995). Moreover, Mexico's inability to control a peasant rebellion by Zapatista insurgents in Chiapas contributed to higher prices. Even more, the crisis threatened to destabilize economic activity along the U.S.–Mexican border, especially for Mexicans who crossed the border each day to work legally in the United States and the $2 billion a year in tourism and trade that went south.

In mid-January, Clinton petitioned Congress for $40 billion in U.S. loan guarantees, credits, and other assistance to Mexico and directed the NEC and the state and treasury departments to lead the United States response to the crisis (Clinton 1995; Robberson 1995). Clinton designated Rubin as the White House's point man to obtain legislative approval. To garner the needed votes, Clinton and Rubin worked with House Speaker Gingrich and Senate Majority Leader Dole, who endorsed the White House's loan package and agreed to drum up the necessary support to bolster the peso and restore investor confidence in Mexico (Chandler 1995). To attain the support of individual legislators, Clinton widened the policy decision-making circle to include Christopher, Gore, and Tyson. The goal was to assure legislators that the loan guarantee package would not require any taxpayer funds and would be backed by a pledge of revenue from Mexican oil exports (Devroy and Merida 1995).

After 2 days of lobbying by Undersecretary of the Treasury Lawrence Summers, on January 28, the IMF notified Clinton that it would supply the Mexican government with $7 billion in loan guarantees. Although the White House hoped IMF assistance would garner enough votes, legislative support quickly diminished as members of the House called on the president to tie the level of U.S. assistance to Mexico's efforts to stem the tide of illicit drugs crossing its border into the U.S. On January 31, Clinton withdrew his initial $40 billion plan from consideration and, in its place, transferred $20 billion from the Treasury Department's Exchange Stabilization Fund (ESF) and extended it as loan guarantees to the Bank of Mexico. Clinton pointed to a federal statute, which held that the ESF is "under the exclusive control of the secretary [and the president] . . . decisions of the secretary are final and may not be reviewed by another officer or employee of the government" (quoted in Chandler 1995). Key to the plan was revenue from oil exports from PemEx, Mexico's state-run oil corporation, would be used to bolster repayments to the U.S. treasury. Also, Rubin demanded that Mexico maintain the value of the pesos it deposits in the U.S. as medium-term swaps (Long, De Long, and Robinson 1996).

In an about face, the White House shifted its position on the role of international lending institutions in preventing the spread of the peso crisis throughout Latin America and perhaps around the world. Summers was able to persuade the IMF to line up an additional $10 billion in medium-term assistance for Mexico, subject to the government's meeting appropriate economic conditions, namely producing a domestic budget surplus and privatizing state-owned businesses. This brought the IMF's total contribution to $17.8 billion. Of this amount, $7.8 billion was to be disbursed immediately, and additional conditional assistance would become available beginning in July 1995. In addition, Summers influenced the Bank for International Settlements to provide $10 billion in short-term assistance to the Bank

of Mexico. Including the ESF funds, the total package amounted to $52.8 billion (Castaneda 1995; Dentzer et al. 1995).

Global Financial Contagion, 1997–1998

Following Clinton's reelection in 1996, Clinton named deputy NEC adviser Gene Sperling to national economic adviser to replace Tyson. Immediately following his inauguration, Clinton would focus much of his time dealing with emerging crises in East Asia, which threatened to impact America's balance of payments and current account deficit. In 1997, economic and political turmoil swept through several key East Asian countries following the collapse of currencies and stock markets in Thailand, Hong Kong, South Korea, Indonesia, and Malaysia. The crisis threatened America's interest in reducing its rising trade deficits with key East Asian nations, securing the value of the dollar, and maintaining political stability (Cooper 1998). The NEC principals believed if East Asia destabilized, the president would be forced to contend with an array of economic and security issues that could upset the entire international system and unravel U.S. global leadership (Cronin 1998).

NEC principals recommended that the president respond with a multifaceted strategy. Secretary of State Albright advised Clinton to pursue an aggressive policy of pressuring Japan to assume the lead in promoting financial reforms. In November 1997, Rubin and Summers devised a strategy to obtain congressional approval for funds to reinforce the IMF. Whereas Fed Chair Greenspan (1997) stressed, "It is in the interest of the United States and other nations to encourage policy adjustments and where required, provide temporary financial assistance," Summers (1998) contended that "the IMF must remain at the heart of any international response."

However, the crises in South Korea and Indonesia quickly worsened. In response the NEC, led primarily by Sperling, Rubin, Summers, Albright, Berger, and Defense Secretary William Cohen, recommended the president extend another $10 billion in loans and credits to South Korea's cash-starved economy. Sperling then convened a series of informal White House meetings between December 15 and 25, 1997 to discuss how to more effectively manage the relationship between economic and security issues on the Korean peninsula (Franke-Ruta 1998). Rubin stressed it was the "group's view that we take other steps . . . it is enormously in our economic and national security interests that economic stability be restored in Korea" (Blustein 1997:A32). In Indonesia, after the rupiah lost 24% of its value against the dollar, both the NEC and NSC concluded that U.S. action was required to prevent widespread violence following demonstrations over rising prices. However, Sperling and Berger advised the president to withhold $3 billion in U.S. assistance until Suharto was forced from power in 1999.

Congress responded to Clinton's actions with strong criticism, which intensified after he requested an additional $18 billion in January 1998 to help replenish the IMF. To gain approval, Sperling and the NEC staff set three political objectives to persuade Congress and the public: promote structural reforms at the IMF; apply additional pressure on Japan to advance the economic recovery of East Asia; and stress U.S. leadership to prevent a global financial contagion. Rubin, Cohen, and Greenspan led the congressional effort, testifying several times in support of regional stability, military cooperation, and free trade between the U.S. and East Asia (Cohen 1998; Greenspan 1998; Rubin 1998). Sperling and Rubin appealed for support from key public groups. In a speech at Georgetown University on January 21, 1998, Rubin declared, "The United States has enormously important economic and national security interests at stake in promoting restoration of financial stability in Asia" (Rubin 1998). On February 3, Sperling and Rubin made the same pitch to about 150 business lobbyists and the next day, Rubin and Summers convened a meeting with dozens of CEOs at the Washington offices of Business Roundtable

(Stone 1998). Due in large part to the outbreak of the Lewinsky scandal, Congress did not finally approve of Clinton's IMF plan until October 1998. Sperling was largely responsible for the NEC's ultimate success, which focused mainly on the relationship between security and economics and pursued an ultimately successful legislative and public campaign to gain support for the $18 billion plan.

South American Financial Crisis, 2001–2002

The NECs response to the currency crises of 2001–2002 in South America is contrasted with President Clinton's handling of the Mexican Peso and Asian Financial crises. Unlike Clinton, when a financial crisis hit Argentina in mid-2001, National Economic Adviser Lawrence Lindsey first denied it was serious and persuaded President Bush to let the markets work out the instability. Lindsey then denied that the U.S. or the IMF could do anything about it, arguing that any response would make matters worse.

Bush's Treasury Secretary Paul O'Neil made matters worse when he stated that Argentina's dire predicament was entirely its own doing and could not be rectified with help from the IMF and the World Bank. O'Neil contended, "Nobody forced them to be what they are" (Catan, Mulligan, and Robinson 2001:11). In January 2002, O'Neil stated if Argentina's economy did implode, it would not affect other nations, although leaders in Buenos Aires threatened to default on foreign loans. In doing so, Lindsey and O'Neil were ignoring the roots of the problem (Faiola 2002). Instead of advising those leaders to abandon the outmoded currency arrangement U.S.-educated economists imposed, the Bush NEC insisted that Argentina slash spending as a condition of aid. When Argentina's government complied, eliminating 28,000 jobs, people rioted and the government fell.

When the crisis quickly spread to Uruguay and Brazil, the Bush administration shifted course and announced a temporary loan of $1.5 billion to Uruguay from the Treasury Department's ESF. Two problems remained, however. First, Bush's response may have been too late, since it appeared the Argentine crisis had already spread (Oppel 2002). Second, he put O'Neil in charge of enforcing the new policy. In only 18 months as treasury secretary, O'Neil has acquired a reputation for speaking and acting without thinking first. His visit to South America, which started in Brazil on August 4, is a case in point. As O'Neil left Washington, the Bush administration announced it would provide Uruguay $1.5 billion to enable the government to reopen the country's banks on August 5 despite the fact that 1 day earlier O'Neil indicated that no U.S. help would be offered (Smith 2002:3).

Ahead of his visit, O'Neil even sparked a diplomatic feud when he declared he was not going to South America with offers of financial assistance because there was too much chance that any new funds would immediately "find their way into Swiss bank accounts" (Smith 2002:3). O'Neil's remarks enraged the Brazilian government and the U.S. Ambassador in Brazil and Karl Rove spent the run-up to the trip on the defensive, trying to soothe ruffled feathers (Meyerson 2002:2). The confusing signals did not provide much comfort and revealed vacillation in Bush's foreign economic policies.

Soothing words of support for South America from O'Neil or Lindsey could have helped, but South America has been highly skeptical of the Bush administration. Both O'Neil and Lindsey did not embrace so-called financial bailouts, key to Bush's desire to set his administration apart from his predecessor who gained the image of a financial traffic cop. However, as this most recent financial crisis in South America demonstrates, the primary impact on capital flows will not be on their level but on their composition and direction. One of the problems of the financial crises of the mid to late 1990s was that investors in their enthusiasm for emerging markets, and policy makers in their zeal to reap the political benefits of emerging financial markets, failed to differentiate adequately among destinations for their

funds and policies. Any new tendency for capital to flow more disproportionately to countries that have built relatively strong financial systems, political institutions, and international alliances can only be a good thing from the point of view of financial stability.

Global Implications of Fiscal Policy

Over the last four decades, America's budget deficits have averaged about 2% of GDP. When interest is deducted, deficits have averaged close to zero. However, the national debt has fluctuated in the range of 25–50% of GDP, climbing as high as 50% in the high-deficit years of the early 1990s. After 3 fiscal years of posting budget surpluses, beginning in 2002, the U.S. was again deeply in the red. In 2004, the U.S. ran a budget deficit of roughly $550 billion or 5% of GDP, which corresponded to a transfer of roughly $500 billion in U.S. financial assets to international wealth holders (OMB annual).

The international consequences of posting yearly budget deficits are significant given that they are financed by the issuance of U.S. government securities. Moreover, the national debt increases each year by roughly the amount of the budget deficit. Many of those securities have been purchased by non-U.S. entities, especially central banks of other countries, which sell their own currencies in order to keep their exchange rates from rising. Since the early 1980s, the U.S. government has made up the difference by importing more goods and services than it exported. For example, from 1998 to 2004, imports rose by 63% while exports advanced only 24%. As a result, the U.S. trade deficit increased from $209.6 billion in 1998 to roughly $626 billion in the first half of 2004, or an advance from 2.4% of GDP to 5.4% of GDP (U.S. Department of Commerce/Bureau of Economic Analysis 2004; U.S. Department of Commerce/International Trade Administration 2004). The important policy issues with the most significant international economic implications were the NEC's promotion of deficit reduction during the Clinton administration and tax cuts during the Bush administration.

Deficit Reduction

President Clinton's first national economic adviser was former Goldman Sachs cochair and international finance specialist Robert Rubin who led the NEC's charge for reducing the budget deficit in 1993, which he believed would lead to a corresponding decrease in the trade deficit. Clinton believed Rubin's experience at Goldman Sachs enabled him to serve as an effective policy broker (Starobin et al. 1992:2893). Bob Woodward claimed, "Clinton wanted someone who knew Wall Street and the bond market close to him in the White House" (Woodward 1994:64). His appointment reflected "both Clinton's stated policy priorities—his promise to focus like a laser beam on the economy—and a historical reality—that with the end of the Cold War, America's most difficult and important challenges lie in the economic realm" (Starobin et al. 1992:2893).

Rubin's key ally on the deficit was Treasury Secretary and former U.S. Senator (D-TX) Lloyd Bentsen who would be the new administration's salesman on Capitol Hill (Woodward 1994; Drew 1995). In his 6 years as Chair of the Senate Finance Committee, he built a solid reputation as a "hawk" on reducing deficits and supported free trade with Mexico. For one official, Bentsen supplied Clinton with "economic, political, and congressional advice" and was able to "look him in the eye as a political peer and say, 'I know what this means politically' " (quoted in Drew 1995:63). Rubin also found friends in OMB Director and U.S. Representative (D-CA) Leon Panetta and Deputy Budget Director and former Congressional Budget Office Director Dr. Alice Rivlin (Stephanopoulos 1999:346).

Although they supported the NEC arrangement, other key members of the initial Clinton economic team proposed new public spending over deficit reduction. Dr. Laura D'Andrea Tyson was an economics professor at the time she was appointed to head the Council of Economic Advisers (Woodward 1994:75–76). Tyson argued the United States should pursue "a relatively cautious approach to industrial policy" and promote new public spending programs (Judis 1993a:21). Clinton's campaign chair Mickey Kantor, who was designated the USTR, agreed with Tyson. Gene Sperling, named by Clinton as deputy assistant economic adviser, was the author of the president-elect's economic plan in *Putting People First*, in which he stressed the need for new spending programs. Robert Reich was named Labor Secretary, which allowed him to manage a department that had been ignored for the previous 12 years. The stage was set for major battles and schisms within Clinton's economic team (Fessler 1993). According to George Stephanopoulos (1999:135), "Our economic team was split into two battling camps: NEC Director Bob Rubin, Treasury Secretary Lloyd Bentsen, and Budget Director Leon Panetta were the deficit hawks, with Gore on their side . . . liberal Labor Secretary Bob Reich led the charge for new investments, assisted by Gene Sperling, Tyson, and me . . ."

Rubin's coalition believed that Clinton had to be mindful of the domestic–international nexus on the budget deficit. Their position was that Clinton's policies should drastically reduce the deficit and complement such efforts with free trade initiatives agreeable to Wall Street, which was slowly embracing Clinton's policies (Starobin et al. 1992:2893; Drew 1995:26–27; Stephanopoulos 1999:346). In doing so, Rubin made it his personal mission to strengthen the NEC by making it the lead organization on the budget deficit issue (Woodward 1994). In doing so, he picked his positions strategically by functioning at times as a policy advocate while at other times as an honest broker. However, he believed Clinton must pay attention to how Wall Street reacted to his policies, and pursuing deficit reduction over new spending was his way of speaking to the business community (Judis 1997). As a result, the new president was able to produce budget surpluses by 1998 and the power and influence of the NEC was significantly enhanced.

Tax Cuts

President Bush selected his top campaign economics adviser Lawrence Lindsey as national economic adviser and former Alcoa chief Paul O'Neil as secretary of the Treasury. Even more, Lindsey brought years of experience to the NEC, having served on the Board of Governors of the Federal Reserve System, at Harvard as an economics professor, and as a staff member on President Reagan's Council of Economic Advisers (Thomas and Naughton 2001). Not only were Bush and Lindsey in agreement on the need for deep tax cuts, de-linking environmental and labor issues from free trade, and domestic spending cuts, Lindsey satisfied Bush's desire for a relative Washington political insider at the helm of the NEC. Bush and his top political advisers, namely Karl Rove and Karen Hughes, believed Lindsey could also counter-balance Treasury Secretary O'Neil, who was not close with Bush and was seen by many as an industrialist with little experience in Washington politics, Wall Street, and in understanding the dynamics of international financial markets and currency (Thomas and Naughton 2001).

In the first few months of the Bush presidency, Lindsey transformed the advisory roles of the national economic adviser. In January 2001, Lindsey moved to expand his role from a coordinator and manager of the policy making process to a policy advocate and drafter of policy. Over the objections of the Treasury Department and many in the Office of Management and Budget, Lindsey and the NEC staff were largely responsible for shepherding the president's $1.6 billion tax cut through

Congress, which was later scaled down and passed by Congress in May 2001 (Thomas and Naughton 2001).

Under Lindsey, the NEC stood in favor of tax cuts through thick and thin. The three rounds of NEC sponsored tax-cut legislation (in 2001, 2002, and 2003) account for a substantial share of the U.S. fiscal deficit (Weisman 2004). The tax cuts reduced revenues by $276 billion in 2004. Further, the interest costs associated with the enacted tax cuts equaled $20 billion. The total cost would therefore be $297 billion, or 2.6% of the economy (or GDP). The cost of the tax cuts accounted for more than half of the 2004 deficit, which the Congressional Budget Office estimated at $477 billion, or 4.2% of GDP. Based on these estimates, the deficit would have been 1.6% of GDP without the tax cuts (Kogan, Kamin, and Friedman 2004).

The large fiscal deficits produced during the Bush administration pose significant risks for U.S. foreign economic policy. A potential 15% increase in the national debt could raise interest rates in the EU, China, and Japan by an average of 1%; higher borrowing costs abroad would mean that the adverse effects of U.S. fiscal deficits would spill over into global investment and output (Kogan, Kamin, and Friedman 2004). Moreover, against the background of record-high trade deficits and a ballooning U.S. foreign liability position, the United States was placed on a course to increase its trade debt to account for almost half of GDP.

Trade Policy and Liberalization

A defining feature of the post-war international economic system has been sustained growth of global trade. Global trade's share of world GDP rose from 13% in 1970 to 21% in 1995 (World Bank 1998). As trade flows have grown, the composition of trade has changed substantially, notably with the expansion of services trade and the larger role of developing countries. Driven by the activities of transnational corporations, various stages of the production process are located in different countries. The resulting intra-industry trade and the decentralization and globalization of production activities have opened new opportunities for developing countries. In response, developing country exports have changed, evolving from a composition dominated by primary commodities to increasingly include manufactured goods and services. In fact, between 1985 and 1995, the share of manufactured goods in developing country exports rose from 47% to 83%. In 2005, developing countries made up 20% of the global manufacturing market in 1995. One explanation for this increase is the rapid trade growth of the East Asian countries, whose share of world manufacturing output grew from 6.8% in 1980 to 11% in 1995 (UNCTAD 1997).

At the same time, the United States has enjoyed the second longest period of sustained economic growth since records began in 1854, with real GDP growth averaging over 2.8% during the years 1992–1996 before accelerating to 3.9% in 1997 and 1998. The main factors contributing to this impressive growth have been private consumption and international investment, both of which outstripped GDP growth in 1998. However, imports also grew much faster than GDP, not only in 1998, but in the previous 2 years, while exports, after experiencing similarly rapid growth in 1996 and 1997, barely increased in 1998. In addition, the unemployment rate fell to 4.5% at the end of 1998 and consumer price inflation to 1.6%, their lowest levels since the 1960s (World Bank 1998). Among the most far-reaching trade policies advanced by the NEC was the Clinton administration's pursuit of the NAFTA, the so-called get tough U.S. trade approach toward Japan, and elevating China to the World Trade Organization (WTO) and permanent normal trade relations (PNTR) status, as well as the Bush administration's strategy of "competitive liberalization."

NAFTA

These extremely beneficial economic developments have followed the considerable trade and investment liberalization that resulted from the Uruguay Round Agreements and the NAFTA with Canada and Mexico. In October 1992, he conveyed his support for NAFTA contingent upon side agreements protecting labor and establishing environmental standards. Rubin, Bentsen, and Secretary of State Warren Christopher believed it was imperative for Clinton to pass NAFTA and favored making concessions to business in order to gain legislative support. However, Kantor, Reich, and EPA Administrator Carol Browner contended that the president must obtain guarantees that labor and environmental standards would not be broken.

In March 1993, the NEC/Principals Committee was made responsible for winning over uncommitted congresspersons and persuading the public to support NAFTA. Given that he won the day on deficit reduction, Rubin conceded that the president should follow the lead of those favoring strong side agreements. However, the president's commitment to NAFTA was hard to detect publicly. Clinton seemed to be wavering because of opposition to NAFTA from the White House staff. According to Stephanopolous, "I didn't think we could win the NAFTA fight. It was a stick in the eye of our most loyal labor supporters, and our base in the House had been through enough already this year. Why put them through the wringer one more time for a Republican trade treaty?" (Stephanopoulos 1999:220).

To enhance internal unity on NAFTA, Rubin delegated administrative responsibility for interagency coordination to the NEC/Deputies Committee. Rubin established ad hoc working groups chaired by deputy national economic adviser W. Bowman Cutter and NEC/NSC senior coordinator Robert Kyle to allow for better interagency coordination among agencies in the executive office and the cabinet. Part of the incoherence and inconsistency with NAFTA, as Rubin saw it, was interagency communication and cooperation among the NEC staff, the USTR office, and the Treasury Department (Judis 1993b).

However, the primary concern for Rubin was not bureaucratic coordination; it was the inability of the NEC to establish a working relationship with Congress and the public. It appeared as though H. Ross Perot, not the president, was setting the tone. In response, Rubin lobbied the president to launch a public campaign for NAFTA headed by the popular Chicago politico William Daley who was Clinton's Illinois campaign manager and was close with organized labor. When Daley revealed to the press that Rubin asked him to serve as Clinton's "NAFTA Czar," he stated: "obviously, there are friends of mine who are not in favor of NAFTA, who believe this may not be a good thing . . . I do believe this creates jobs . . . and not just in the short term. There's no reason to think those jobs won't be union jobs back here" (quoted in Behr 1993:B6).

Daley and Rubin shifted the White House strategy almost overnight by reducing the role of the USTR and expanding the roles of the secretaries of treasury, state, labor, and agriculture and the EPA Administrator in leading the push for NAFTA in Congress. The president led the public effort by convening White House meetings with governors, members of Congress, and leaders of the Natural Resources Defense Council, Audubon Society, Environmental Defense Fund, and the World Wildlife Federation (Clinton 1993). In the Senate, Daley persuaded the president to introduce legislation renewing the "Super 301" component of the 1988 Omnibus Trade and Competitiveness Act to allow the president to impose sanctions against countries that violate free trade practices (Stokes 1993). For labor unions, Labor Secretary Reich proposed a $90 million federal program to aid workers who lose their jobs resulting from NAFTA (Swoboda 1993). However, many in the White House staff believed that the NAFTA fight was draining Clinton's political capital on other issues, namely health care reform (Stephanopoulos 1999:120).

Eight days later the House approved NAFTA 234 to 200, with the support of 132 Republicans and 102 Democrats. The Senate then approved NAFTA 61 to 38 and in December the president signed NAFTA into law. The measure was passed largely as a result of the ability of Rubin's NEC to adapt to the changing legislative and public environments on free trade.

"Getting Tough" on Japan, 1994–1995

Following NAFTA, Tyson, Kantor, and others were determined to "get tough" with Japan for its past use of so-called managed trade tactics against U.S. products (Stokes 1994). They also favored balancing the White House's support for free trade with a series of measures that would be acceptable to labor unions and environmentalists in the Democratic Party. Pushing the president to distance himself from NAFTA were USTR Kantor and CEA Chair Tyson who suggested Clinton enact "results-oriented" trade policy measures, including import quotas and sanctions against Japanese goods and businesses operating in the U.S. (Stokes 1994:286).

From the beginning, Kantor and Tyson were poised to dominate America's Japan policy. These advisers, who held powerful positions on the NEC/Principals Committee, had embraced economic confrontation and conflict with the Japanese government in the hope that sustained and prolonged pressure would produce substantive alterations in what they perceived as Japanese trade protectionism. Deputy USTR Charlene Barshefsky maintained: "The political climate between the United States and Japan will be determined by economics. If the economics are not right, the political climate is not going to be right. To the extent that the Japanese are concerned about the political climate, they have it in their power, to ensure that the political climate is positive" (quoted in Stokes 1994:286).

Over the objections of the State Department, Robert Rubin took a back seat to those favoring a get-tough trade policy toward Japan (Marcus and Behr 1994:A16). Clinton even dispatched NEC deputy Tyson and Kantor to Tokyo on July 4, 1993 in the hope that Japan would commit itself to specific targets for reducing its $50 billion surplus with the United States (Blustein 1993:A1). To back up the tough talk, Tyson sought congressional support for the Fair Trade in Financial Services Act of 1993, which would slap sanctions on governments that discriminate against foreign private lending institutions. It was clear that by the end of 1994, Tyson, Kantor, and Barshefsky were manipulating the process to the point where U.S. policy toward Japan was based on "get tough" measures.

China, the WTO, and PNTR, 1999–2000

A key foreign economic policy goal for the Clinton administration in its second term was engagement and cooperation with China. WTO admission and the establishment of PNTR were centerpieces in that policy. For years, Chinese leaders sought to convince U.S. presidents they were ready for WTO membership and possessed the institutions to abide by norms and rules governing free trade (Omstead 1997).

President Clinton believed if China was admitted to the WTO on a "rolling basis," America's enormous trade deficit, which was expected to reach $60 billion in 1999, would drop since over one-third of it was with China. Tying Beijing's benefits in the global free trade system to WTO rules that restrict export subsidies and import quotas was seen as the best way to lower the U.S. trade deficit. Other issues, such as allegations that Chinese leaders gained influence in the 1996 presidential election, relations with Taiwan, and religious toleration threatened to undermine U.S.–China relations. Clinton claimed the most effective route was establishing closer economic relations through the WTO and PNTR (Baker 1998; Canon 1998).

Clinton delegated his new National Economic Adviser Gene Sperling with responsibility for developing his plan to admit China to the WTO. Sperling worked

in close association with White House Chief of Staff John Podesta, who was responsible for making sure the president did not appear too soft on China in Congress and too tough for U.S. business groups. Other major players in developing Clinton's initial policy on WTO admission for China were Treasury Secretary Robert Rubin, USTR Charlene Barshefsky, Commerce Secretary William Daley, National Security Adviser Sandy Berger, and Secretary of State Madeleine Albright. To appease anti-China forces in Congress, Sperling and Podesta persuaded the president to embrace action against China under the 1974 Trade Act, which empowers the president to slap import quotas on nations engaging in "unfair trading" practices (Stokes 1998). As China was not a WTO member at the time, sanctions would not violate global trading rules. The tactic was popular in Congress, which complained that the president was not responding to China for its piracy of U.S. intellectual property. Sperling and Podesta believed that once Congress had Beijing's attention, Clinton would support PNTR and fashion a framework for dealing with China's WTO membership.

Sperling and Podesta's embrace of tough tactics to prod China into the WTO worried the NEC/Principals Committee. Treasury Secretary Robert Rubin cautioned that nudging China might further upset global financial markets. He believed punishing China could entice its leaders to devalue its currency and make its exports even more attractive to U.S. consumers. Daley and Barshefsky even hinted that prodding China could undermine efforts by U.S. negotiators to lift Chinese restrictions on foreign firms operating in China. Berger and Albright also opposed tough tactics, claiming that nudging China could spark tensions over Taiwan and North Korea.

Five days after China's bid to join the WTO was rejected by President Clinton, the NEC found itself struggling to mollify Chinese officials and U.S. business leaders angry over the damage that may have been inflicted on U.S.–Chinese relations. To demonstrate their commitment to WTO membership for China, Sperling and Barshefsky convened a meeting with the business community on April 12. One industry official who attended the meeting observed, "Businesspeople were concerned about this whole deal [China's WTO entry] unraveling" (Blustein 1999:E1). On November 15, after 6 days of meetings, U.S. and Chinese negotiators agreed on terms for China's entry into the WTO. The agreement lowered agricultural tariffs, eliminated state subsidies on exports, established a special court to review violations of intellectual property rights, and increased competition in the automobile and electronics industries (Mufson 1999).

On January 10, 2000, Clinton convened a press conference at the White House to announce an "all-out" political effort to win support from key interest groups and persuade Congress to grant China PNTR. National Economic Adviser Gene Sperling (2000) even held: "the congressional vote on PNTR for China is the most important foreign policy and economic issue our country will face this year—and perhaps the most profound foreign policy issue this country will face over a 10-year period." However, Clinton's support for PNTR was also a touchy subject for Democrats. Since his victory on NAFTA in 1993, Clinton had been relatively successful in making the Democratic Party more supportive of free and open trade, and therefore closer with big business. With the November elections not far away, labor unions and environmentalists could withhold or delay their support for Democratic candidates and in particular for Vice-President Al Gore.

To overcome congressional opposition and defeat constituencies within his party, Clinton assembled a special NEC-coordinated Cabinet Committee on PNTR for China. He even created a "China Working Room" in the White House to coordinate the effort and muster support. Clinton designated Deputy White House Chief of Staff Steve Ricchetti and Commerce Secretary Daley to head the committee and "to do everything they can to accomplish the task" of granting PNTR for China (Clinton 2000). Among the other members of the working group were Sperling,

USTR Barshefsky, Secretary of State Madeleine Albright, Assistant Secretary of State for East Asian/Pacific Affairs Stanley Roth, National Security Adviser Berger, Treasury Secretary Summers, and Agriculture Secretary Dan Glickman. Berger described the effort as the most "substantial as anything I've seen in 7 years in the White House" (Babington and Vita 2000:A1).

The vote on PNTR was set for late May, which would benefit the president since a further delay could make the issue a central topic in the upcoming elections. The White House effort to attain passage of PNTR was extremely effective. On May 3, Daley, Summers, and Barshefsky testified before the House Ways and Means Committee in defense of a five-point, $22 million trade enforcement plan to make sure China lives up to its commitments (Barshefsky 2000; Daley 2000; Summers 2000). The plan would establish a "rapid response team" of trade specialists headed by a new Deputy Assistant Commerce Secretary for China, enforce tight deadlines for the team to investigate market access and commercial problems, monitor surges in imports of Chinese products and declines in U.S. exports, share U.S. implementation strategies with the Chinese government, and create training programs for businesses operating in China. In the end, the House passed PNTR on May 24 in a vote of 237 to 197 and on September 19, the full Senate voted 83 to 15.

Competitive Liberalization

The Bush administration moved forward with several aspects of Clinton's trade policies. Although the most significant commitment was to expanding the multilateral trading system and the WTO, it was confronted with two large obstacles: the lack of fast-track negotiating authority (trade promotion authority or TPA) and international skepticism regarding a new trade round after the 1999 disaster in Seattle.

Regarding TPA, National Economic Adviser Lawrence Lindsey designated USTR Robert Zoellick (2001) to lead the charge in "regaining the momentum on trade issues" starting with the April 2001 Quebec Summit of the Americas, at which the president lent support to a new round, and continuing with trips by Zoellick to South America, Asia, and Europe and promoting a new round at Doha (World Bank 2004). The administration warned Congress of the negative consequences of a failure to reenact TPA. In June 2001, Zoellick (2001) told the Senate Finance Committee: "If Trade Promotion Authority is denied by Congress, it would be hard to establish the U.S. as a credible trading partner."

The NEC then formulated a strategy of linking trade policy to Bush's overall national security goals after 9/11 under the banner of "competitive liberalization" (Bergsten 2004, 2005). The slogan meant that the United States was committed to negotiations with individual nations, groups of nations and whole regions (as a complement to its multilateral negotiations), on the theory that through the discrete use of the U.S. market such negotiations would set off a competitive process toward global free trade. Speaking just before the Doha Ministerial Meeting in November 2001, Zoellick (2001) directly tied the need for a successful launch of multilateral negotiations to the events of 9/11: "The events of 9/11 have set the stage for our work . . . America and the world have been attacked by a network of terrorists who are masters of destruction . . . They fear foreign ideas, religions and cultures . . . They see the modern world as a threat . . . They leave people in poverty . . . "

The NEC's strategy would be particularly relevant for negotiating free trade agreements with Jordan (which began under Clinton), Morocco, and Bahrain. The NEC managed FTA negotiations with the United Arab Emirates and Oman, which were seen as key elements in a long-range strategy to pursue a U.S.–greater Middle East free trade agreement by 2013. It is also clear that support for a U.S. invasion of Iraq played a role in moving Australia to the top of the list of free trade agreements

in 2002–2003. Opposition to U.S. security interests meant that New Zealand, for example, was denied negotiations for an agreement with the U.S. In addition, the U.S. briefly held up final ratification of the U.S.–Chile agreement because of Chile's opposition to a second U.S.–U.K.-sponsored resolution on Iraq at the UN Security Council (Ferguson and Sek 2005).

In response to what exactly the ultimate benefits for the U.S. would be under competitive liberalization, the NEC instituted a more formal interagency process to establish priorities. The NSC and the NEC would jointly coordinate an informal process of consulting with relevant agencies and departments, based upon recommendations made by USTR. This resulted in a consensus recommendation to President Bush for negotiations with Australia, the Central American Free Trade Agreement, and Morocco. With the passage of TPA in 2002, and the potential of a number of new free trade agreements, Bush's second National Economic Adviser Stephen Friedman issued new guidelines using a new interagency decision making process that included standards for country readiness, commercial gain, compatibility with national security interests, congressional and interest group support, and resource constraints.

However, the free trade principles that drove NEC policy making had to give way to important strategic political calculations; namely, appealing to steelworkers and steel companies in politically important states like West Virginia, Ohio, and Pennsylvania. American steel companies based largely in these key states complained that high import fees and tariffs levied on U.S. steel by Western Europe stymied U.S. steel production. In an attempt to win these important states in 2000, then-candidate Bush promised to retaliate and, once in office, it was difficult for him to distance himself from his campaign promises (Frankel 2001). In response to a report from the International Trade Commission that U.S. steel companies had been injured by European tariffs, Bush imposed 3 years of quotas ranging from 8% to 30% on a variety of imported steel (Magnusson 2002).

Bush's decision was made over the objections of Lindsey and his NEC staff, which protested that the move would tarnish the president's image as a free trader (Ponnuru 2002). Politics played a role in the decision: getting an edge for Republicans in steel states was crucial for the midterm elections and beyond. However, National Security Adviser Condoleezza Rice and Secretary of State Colin Powell worried that a "trade war" with Europe might compromise U.S. anti-terrorism efforts and any hope of building an international coalition against Iraq (Thomas 2002).

The Importance of Studying U.S. Foreign Economic Policy and the NEC

On the whole, our observations lead us to make three tentative conclusions concerning the high politics of foreign economic policy making and the rise of the NEC. First, as U.S. foreign economic policy has evolved since the creation of the NEC in 1993, the role of the national economic adviser has greatly expanded. Though most perceive themselves as neutral brokers of advice and deny playing policy roles, they are highly influential *advocates* of specific courses of policy action. As *guardians* of the president, they seek to protect the White House from criticism, perform unpopular tasks such as fire personnel, say "no" to particular requests, and prevent certain individuals and groups from influencing policies. As *mediators* of the policy making process, they go to great lengths to quell internal bureaucratic strife and please international actors. In addition, the national economic adviser's formal responsibility of serving as an *administrator* who coordinates economic decision-making is critical, since the size and responsibilities of the economic bureaucracy demand that an individual or group manages policy making. The expanding roles of the national economic adviser challenge the original notion of the NEC serving as an honest broker of the policy making process.

Second, as globalization has erased the domestic–international distinction in U.S. foreign economic policy, the NEC has developed into a filter agency for intermestic issues. The rise of intermestic politics and the expansion of the economic bureaucracy have put an added premium on the president's ability to manage the executive branch. While presidents have attempted to coordinate intermestic issues and the economic bureaucracy by centralizing policy making in the White House, such as with Nixon's Council of Economic Policy, Ford's Economic Policy Board, Carter's Economic Policy Group, and Reagan and Bush's Economic Policy Council, the importance of the global economic environment has eroded both the post–Cold War president's independence in domestic affairs and the autonomy of a state in international affairs. Policy makers realize they need to manage and coordinate the policy process around intermestic issues if they hope to govern and lead policy. Given America's greater dependency on the global economy, as evidenced by the interconnectedness of financial transactions, global trade, and the international implications of fiscal deficits, the NEC-led management system has been effective in reflecting the increased importance and prominence of U.S. foreign economic policy issues.

Third, it appears that the NEC and the national economic adviser have become increasingly institutionalized over the last 12 years. With the U.S. having entered a new millennium of even greater global complexity and economic interdependence, the tendency to centralize power within the White House and to turn to more dependable groups and trusted advisers is likely to be reinforced. A White House–centered policy making system increases their opportunities to manage the bureaucracy and concentrate power.

U.S. foreign economic policy cannot be adequately understood without integrating the rise of the NEC and the role of the national economic adviser in the policy making process. While certainly not the only factor in policy outcomes, the policy making process sets the rules, affects the agenda, determines the influence of the various actors, and impacts the implementation of foreign economic policy. Consequently, scholars must conduct more research on the NEC's rise to prominence in order to more fully discern the dynamics of U.S. foreign economic policy.

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